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Biblical Argument for BRI

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A Biblical Argument for BRI

In the beginning, God's commandment for us is to work and watch over the land (Genesis 2:15).

While our culture has excelled at becoming more productive in our "working of the land" through modern portfolio theory and passive investing, we have gradually gotten worse at fulfilling the second part of God's commandment, namely, to "watch over" the very land that we are working.

Christian investors can respond to this weakened ability to watch over the land by moving towards Biblically Responsible Investing (BRI).

In the beginning, "the LORD God took man and put him in the garden of Eden **to work it and watch over it.**" (Genesis 2:15, NLT, emphasis added) This is a Biblical framework for how investing should be.

To "work the land" effectively means to enable it to produce fruit.

To "watch over the land" effectively means to enable the garden to flourish in the midst of its fruit production.

Since Christian investors do not necessarily find themselves with hands full of dirt as they work and watch over our world, does this mean this early job description from the Lord does not apply to a Christian investor today?

How could working and watching over the land be done well for a Christian investor today?

Work the Land

Over the last 400 years, a few key financial ideas have enabled an abundant working of the land.

For this paper, I am going to highlight three such financial ideas that have particularly helped us harvest fruit from the land: the joint-stock company (1609), modern portfolio theory (1952), and passive investing (1990s)

The first crucial financial idea that allowed for a great increase in the fruitfulness of the land was the invention of the joint-stock company. A joint stock company is its own legal entity, which allowed investors to buy “shares of stock” in that independent company. The first Joint-Stock company was the Dutch East India Company in 1609.

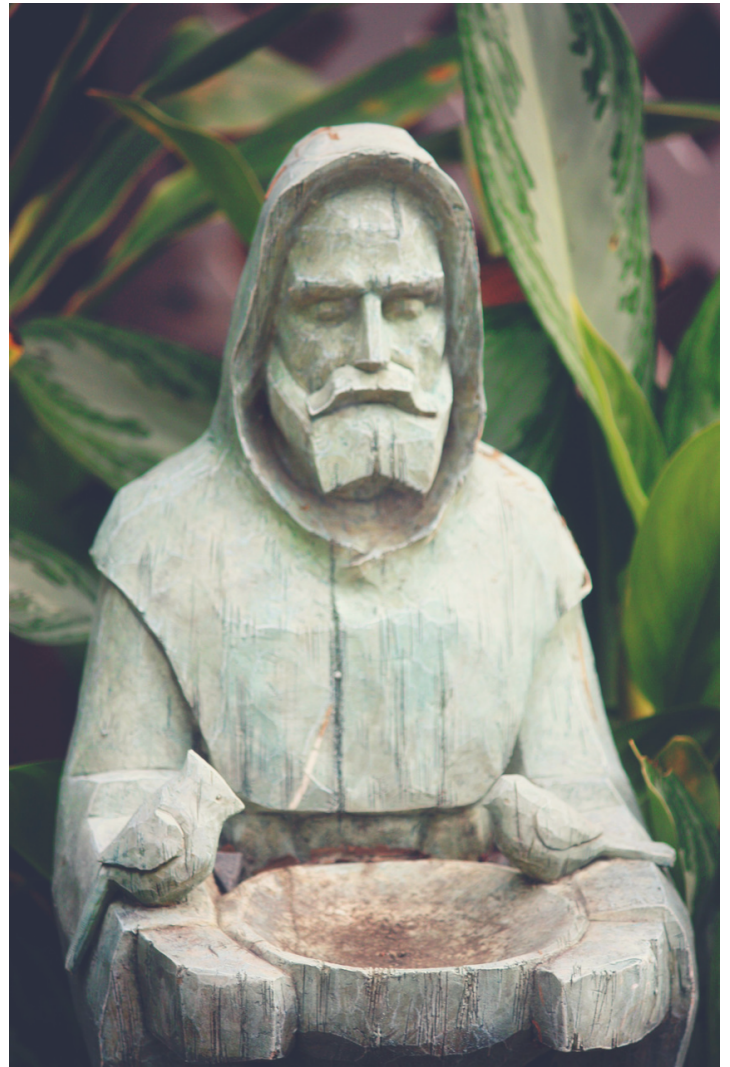
Before the joint-stock company, any investor who wanted to invest in a company needed to become a partner of that company, which entailed a lot of paperwork and commitment. And if the investor wanted to sell his partnership position, more paperwork (and often lawyers) were needed to get out of the partnership.

One of the greatest features of owning stock in a joint-stock company was that the owner is free to sell that share of stock to any willing buyer without needing any kind of permission by the company.

Once the joint-stock company was created, money was pooled together more easily. This injected significant “liquidity” into the financial markets.

But, it was not until the large scale adoption of modern portfolio theory (MPT) that stock investing was moved from the halls of the rich to the living rooms of the common citizen.

MPT, first articulated by Harry Markowitz in 1952, argues that an investor should not put all of his or her eggs in one basket.



While this may seem like a simple concept, the revolutionary idea of MPT was that all investment opportunities should not be considered just individually, but also be evaluated together as a potential portfolio. Evaluating all investment opportunities in the context of a portfolio led the average risk-conscious investor to include stocks in their investment accounts, which eventually led to billions of dollars of retirement money¹ being injected into the stock market.

The last powerful financial idea that I will mention, which served to further enhance the fruitfulness of the land, was the invention of “passive investing.”

Passive investing is when investor money is pooled together and then given to a computer that simply buys a “list of companies” (i.e., index). An index can represent exposure to any kind of desired business risk (e.g., oil companies, car companies, European companies).

1. Smith, Mark B., *Equity Culture*, Farrar, Straus and Giroux, New York, 2003 (pg. 219-220)



"Certain innovative financial ideas have multiplied the fruitfulness of the land."

Since the holdings of the index list are mostly stationary, the portfolio is not actively managed, and is said to be "passive."

Bill Sharpe wrote a paper in 1991 called, "Arithmetic of Active Management" where he showed the simple math that, given the laws of arithmetic, half of all money managers will earn less than average returns (less than half when you subtract management fees).

By comparison, passive funds, which have minimal costs², should be expected to outperform most professional managers. This logic has consistently proven to be true by academic research. For example, one recent study showed that passive funds outperformed 76% of active mutual fund managers from 2003-2013.³

Given the simplicity and cheapness of passive investments, investors have stampeded towards passive products and these passive products have led to widespread ownership of stocks by American households (55% of all U.S. households,⁴ 66% of all 401k assets,⁵ more than half of all U.S. public pension money are invested in stocks as of the mid-2000s).⁶ This increase in stock ownership means companies produce more goods and services since they have more access to capital for their business ideas.

2. The most popular passive product, Vanguard's S&P 500 Index has an annual fee of 0.05% vs. 1.0% for the average active fund.

3. <https://www.nerdwallet.com/blog/investing/investing-data/active-mutual-fund-managers-beat-market-index/>

4. Gallup's annual Economy and Finance survey, 2015

5. As of 2014, <https://www.ici.org/pdf/per22-03.pdf>

6. Pension and Investments 2012 annual plan sponsor survey

Watch Over The Land

As the world economy has proliferated in goods and services, there has been a trend of less and less monitoring of those goods and services. To watch over the land means to understand the impact of our goods and services on the community. Before the joint-stock company, modern portfolio theory, and passive investing, owners of businesses had a shared liability with their business - if the business acted in a way inconsistent with the owners' values, all investors in that company were legally liable, so investors put a high value on monitoring their investments.

If we fast-forward to today, it is a much different story. Because of the limited liability of owning a stock (no stock owner can lose more than their initial investment) and the lower risk of owning a portfolio of stocks, owners of stock typically own hundreds of companies.

Managers, who receive investor money from thousands of different stock investors, are no longer working alongside their investors.

One of the most serious consequences of this trend is that Christian stock owners, who often own hundreds of companies, may not know when their owned investments engage in activities that deteriorate human flourishing, such as funding abortion clinics or pornographic products.

**"BRI Investing
enables investors to
more effectively
watch over
the fruitfulness of
the land."**

One of the most popular investment products, the Vanguard S&P 500 Index, with \$443 billion dollars of investor money, includes many companies who are acting directly against Biblical values. *eValueator* estimates that 73% of the 500 companies in the fund are acting in ways not consistent with Biblical values.⁷

Christians need to do a better job of watching over their investments and ensuring that they are not endorsing (or profiting from) certain corporate behavior, through their stock ownership claims, that help to lead culture away from Biblical values.

So, what is a Christian to do, then? Is the only solution to disengage from passive investing, altogether?

Our Response

One simple solution is to move towards Biblically Responsible Investing (BRI). BRI is a movement of biblically inspired investment products that are able to combine the positive benefits modern portfolio theory and passive investing with a consciousness that these products need to be "watched" to ensure that Christian values of stewardship are being honored.

These BRI products are "watched" through their endorsing, engaging and excluding activities; they endorse companies that are acting especially consistent with biblical truth, but also engage and/or exclude companies that are not acting in ways consistent with Biblical truth.

While this type of "watching over" will always fail to be as effective as a single shared liability business investment, it is a step towards fulfilling God's mandate to both work and watch over the land that has been entrusted to us.

7. <http://evalueator.com/> (as of 8/3/16)



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